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December Sales Sparkle, Margins Pressured

By ARNOLD J. KARR

Holiday sales came late and often at the expense of profit margins for U.S. retailers in December.

Outside a Gap store in Japan.
Photo By Kazuhiro Nogi/Afp/Getty Images

Stores reporting December same-store sales results Thursday generally reported increases, and gains in excess of those expected by analysts. A notable exception was Target Corp., which disappointed the investment community with a 1.6 percent comparable-store increase for the month, about half of what analysts expected, and lowered its fourth-quarter earnings estimate to a range of $1.35 to $1.43 a diluted share from a prior range of $1.43 to $1.53.

Macy's Inc.'s comp increase of 6.2 percent was 1.2 points higher than expected, and came gift-wrapped with a doubling of the company's dividend and an increase in its stock repurchase authorization. The company pointed out that its online sales, incoprorated into its monthly comp number, were up 40.3 percent for the November/December holiday period.

Gap Inc., however, fell short of expectations as its 4 percent decline in December comps was steeper than the 1.3 percent slide forecast by analysts. While the North American nameplates of Gap and Old Navy were down 4 percent for the month, Banana Republic was down 2 percent and international operations down 6 percent.

"We expected December to be highly promotional, and while we competed aggressively across our brands, our performance was below our expectations," said Glenn Murphy, chairman and chief executive officer of Gap Inc. "That said, we are encouraged by bright spots across our business, and we’re clear and focused on what needs to be fixed in order to improve our sales trend in 2012."

Dillard's Inc. was a point better than estimates with a 4 percent comp gain and Stage Stores Inc.'s 1.2 percent increase beat a 1 percent forecast. Andy Hall, president and ceo of Stage, commented, "The promotional business environment experienced on Black Friday continued throughout December as consumers remained motivated by value. While our December average unit retail was up 2.3 percent, it was not enough to offset cost inflation, and therefore will pressure our fourth-quarter gross margin rate."

Results among teen retailers were uneven, with Zumiez Inc. and The Buckle Inc. well ahead of expectations with increases of 10 percent and 8.9 percent and The Wet Seal Inc. falling short of estimates with a 3.7 percent decline.

Susan McGalla, ceo of Wet Seal, said that a less promotional approach at its Wet Seal division contributed to a 2.5 percent comp decline at the nameplate, but that merchandise margins improved as a result.